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CANADA: ECONOMIC FACT PACKAGE

Economic Prospects

The Canadian economy is beginning to emerge from a severe recession in which real gross national product declined 7.5 percent over the past 18 months. Pent-up demand for housing and consumer durables should spur improvement in these sectors this spring, but overall recovery will be slow. The business outlook remains bleak; corporate balance sheets continue to worsen, and investment is likely to continue declining in 1983. A sharp rundown in inventories has occurred which should prompt a renewal of some production activity. This new production combined with a moderate upturn in consumer spending should boost growth to 1.2 percent this year. [REDACTED] 25X1

Weak demand in the United States as well as at home, exacerbated by Ottawa's tight monetary policy of the past two years, has helped to reduce the rate of inflation. We expect continued improvement this year, with the consumer price index rising less than 8 percent compared to 10.8 percent in 1982. [REDACTED] 25X1

[REDACTED] 25X1

Skyrocketing unemployment threatens to replace inflation as Ottawa's primary economic concern. Over 500,000 people were added to the unemployment rolls in 1982, boosting the unemployment rate to 12.8 percent at yearend. Finance Minister Lalonde faces growing public pressure to introduce an extensive job creation program in the budget to be announced this month. We believe Ottawa will resist introducing a stimulative budget, [REDACTED] 25X1

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however, because the federal deficit is already increasing rapidly, and leaders do not wish to risk reinflating the economy. [REDACTED] 25X1

US Influence on the Canadian Economy

Economic ties between the United States and Canada are vast. Trade, capital markets, media, and institutions such as business firms and labor unions all work to unite the two economies. [REDACTED] 25X1

Trade

Trade has been the one bright spot in Canada's 1982 economic picture. The domestic slump produced a 15-percent drop in import volume which, combined with a slight increase in exports, resulted in a \$2.1 billion current account surplus, the first in 9 years. The surplus probably will decline to \$1.5 billion next year, and we expect the current account will return to deficit in 1984 as the Canadian economy recovers. [REDACTED] 25X1

Canada and the United States enjoy the most extensive trade relationship of any two countries in the world.

- The United States took 69 percent of Canadian merchandise exports in 1982 -- about \$47 billion.
- Canadian purchases from the US in the same year totaled \$38 billion -- 71 percent of total imports.
- Nearly 18 percent of US exports are sent to Canada, while some 19 percent of US imports come from Canada.

Canada registered a record \$9 billion merchandise trade surplus with the United States in 1982, but a steadily growing services deficit kept the overall trade balance in favor of the

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United States by \$847 million.

Banking

Ottawa did not allow foreign banks in Canada to operate as full commercial banks until 1980. The Bank Revision Act of that year permitted foreign banks to establish subsidiaries in Canada subject to restrictive terms and conditions. The Act limits non-Canadian banks to holding no more than 8 percent -- currently \$15.4 billion -- of total Canadian bank assets, and the Inspector General of Banks determines on an ad hoc basis the limit on assets of each foreign bank. The Act also requires reciprocal treatment for Canadian banks operating in foreign countries. Eighteen US banks have incorporated in Canada; they hold \$5.4 billion in Canadian assets, 40 percent of the \$13 billion held by all foreign banks operating in Canada

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Industry and Finance

American financial markets, foreign investment, technology, and communications play an important role in the Canadian economy. Approximately 35 percent of Canada's manufacturing industry is owned or controlled by US parent firms. In some industries such as rubber and transportation equipment, the

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[redacted]

degree of US control approaches 70 percent. In the past two years, however, the Canadianization incentives of the National Energy Program have reduced the extent of US control of the petroleum industry from 64 to 60 percent. [redacted] 25X1

Nearly 16 percent of Canada's long-term funded debt and 72 percent of the total foreign long-term investment in Canada were held in the United States in 1977, the most recent year for which we have data. Canadian direct investment in the United States has grown rapidly since 1976, and in recent years it has outpaced US direct investment flows into Canada. The Canadian government and private firms often borrow in the US financial market. [redacted]

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Media

Nearly 80 percent of Canada's population lives within 100 miles of the border and is thus exposed to American radio, television, magazines, and newspapers. Canada has imposed content requirements on the print and broadcast media to preserve a minimum level of Canadian cultural and financial input. [redacted]

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Americans Working in Canada

Relatively few Americans cross the border on a daily basis to work in Canada. Only 14 percent of US travelers to Canada in 1980 cited business, conventions, or employment as their reason for going to Canada, while slightly less than 13 percent of Canadians visit the United States for those purposes. The reason is that foreigners may undertake temporary assignments in Canada only after obtaining an employment visa or work permit; to obtain such a permit a Canadian employer must certify that no suitable

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Canadian candidate can be found to fill the job. Long-term or permanent transfers to Canada require admittance as a landed immigrant. A similar procedure applies to Canadian workers in the United States. In 1979 nearly 10,000 US residents emigrated to Canada, almost 9 percent of total Canadian immigration.

Travel

The majority of Canadian foreign travel is to the United States -- 2 million Canadians travel each year just to Florida. Americans also travel extensively in Canada and contribute the overwhelming bulk of tourist income. In 1981, Canada registered 42 million foreign visitors, of which 40 million were US citizens. Conversely, 33.5 million Canadian visitors were registered in the United States. Last year, Canada's deficit on travel with the United States amounted to \$600 million.

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Canadian Economic Statistics

Table I

	1978	1979	1980	1981	1982
GNP (Billion Can \$)	230.5	261.6	291.9	331.3	348.8
Real Growth (percent)	3.6	2.9	0.5	3.1	-4.8
Consumer Price Index (1971=100)	175.2	191.2	210.6	236.9	262.5
Percent Increase	9.0	9.0	10.1	12.5	10.8
Unemployment (thousands)	911	838	867	898	1,305
Unemployment Rate (percent)	8.3	7.5	7.5	7.6	11.0

Table II

Canadian Current Account
(US Billion)

	1977	1978	1979	1980	1981	1982*
Exports						
Merchandise	41.9	46.3	55.7	65.7	70.2	68.2
Services	7.6	8.8	9.8	12.1	12.7	12.8
Transfers	1.4	1.4	1.7	2.3	2.6	2.2
Total	50.9	56.5	67.2	80.1	85.5	83.2
Imports						
Merchandise	39.2	43.1	52.3	58.4	64.1	53.8
Services	14.6	16.4	18.0	21.4	24.6	26.0
Transfers	1.0	1.3	1.1	1.2	1.3	1.3
Total	54.8	60.8	71.4	81.0	90.0	81.1
Balance						
Merchandise	2.7	3.2	3.4	7.3	6.1	14.4
Services	-7.0	-7.6	-8.2	-9.3	-11.9	-13.2
Transfers	.4	.1	.6	1.1	1.3	0.9
Total	-3.9	-4.3	-4.2	-.9	-4.5	2.1

*preliminary

Table III

Canadian Trade With The United States
(US Billion)

	1977	1978	1979	1980	1981	1982*
Exports						
Merchandise	29.1	32.5	38.1	42.0	46.9	47.0
Services	4.0	4.4	4.7	5.2	5.9	5.6
Transfers	.3	.3	.3	.4	.4	.3
Total	33.4	37.2	43.1	47.6	53.2	52.9
Imports						
Merchandise	27.5	30.6	37.9	40.8	44.0	38.0
Services	9.5	10.6	11.5	13.4	15.3	15.5
Transfers	.2	.3	.3	.3	.2	.2
Total	37.2	41.2	49.7	54.5	59.5	53.7
Balance						
Merchandise	1.6	1.9	.2	1.2	2.9	9.0
Services	-5.5	-6.2	-6.8	-8.2	-9.4	-9.9
Transfers	.1	0	0	.1	.2	.1
Current Account	-3.8	-4.3	6.6	6.9	-6.3	-0.8

Table IV

Canadian Economic Statistics

Canadian Direct Investment in the US (Billion US\$)

1978	6.2
1979	7.0
1980	9.8
1981	12.2
1982	13.6*

US Direct Investment in Canada (Billion US\$)

1978	37
1979	41
1980	45
1981	47
1982	49*

* forecast

Table V

Foreign Control of Canadian Industry (1980 Assets)
(Percent Control)

	Total Foreign	US Share
Mining	39.9	32.0
Oil and Gas	64.2	60.0*
Total Manufacturing	46.9	34.0
Rubber	93.0	71.6
Transportation Equipment	74.7	69.2
Chemical	65.3	50.3
Electric	66.2	55.9
Heavy Machinery	60.4	49.9
Textiles	57.6	47.2
Metal Fabricating	39.5	31.6
Pulp and Paper	39.5	31.4

* based on 1982 oil production

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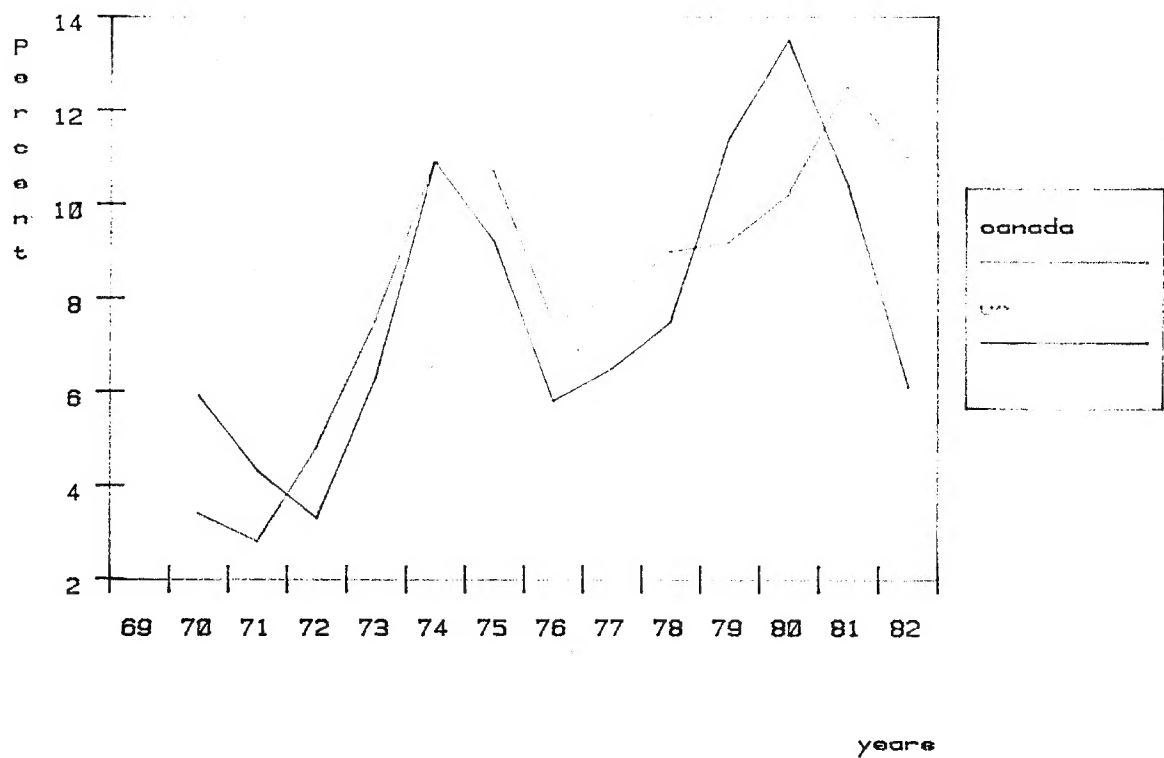
Real GNP Growth

United States and Canada



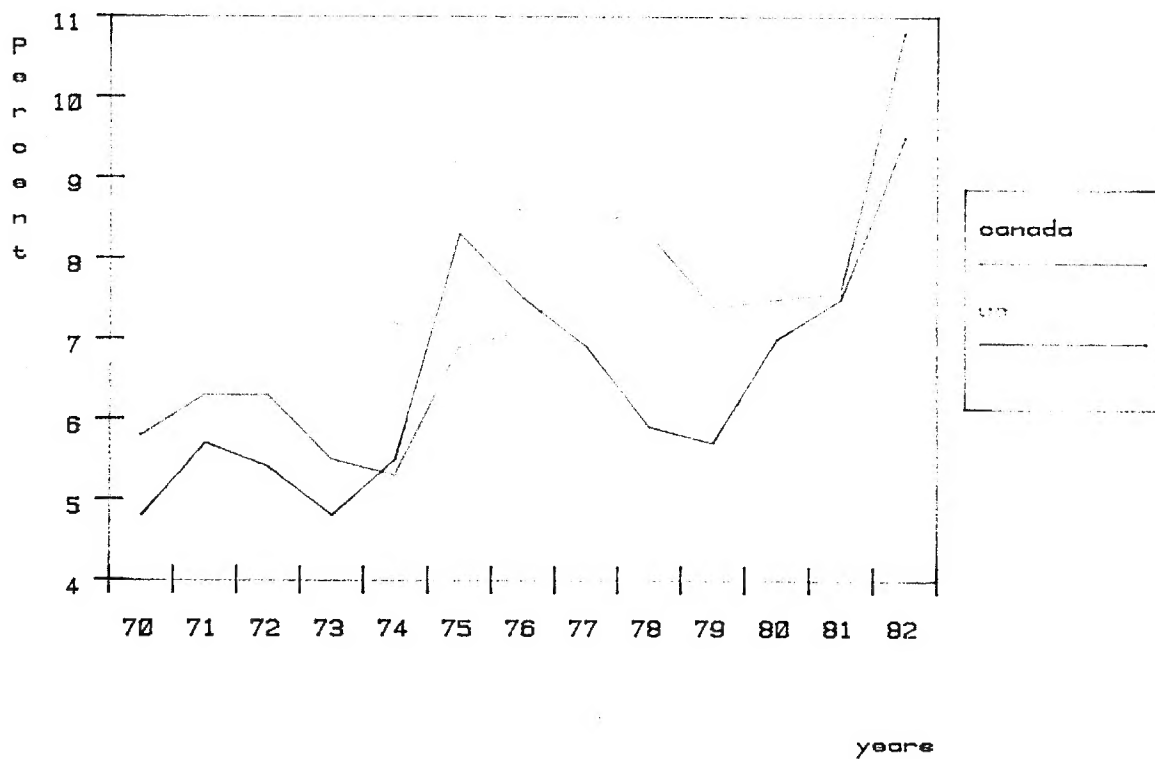
Consumer Price Index

United States and Canada

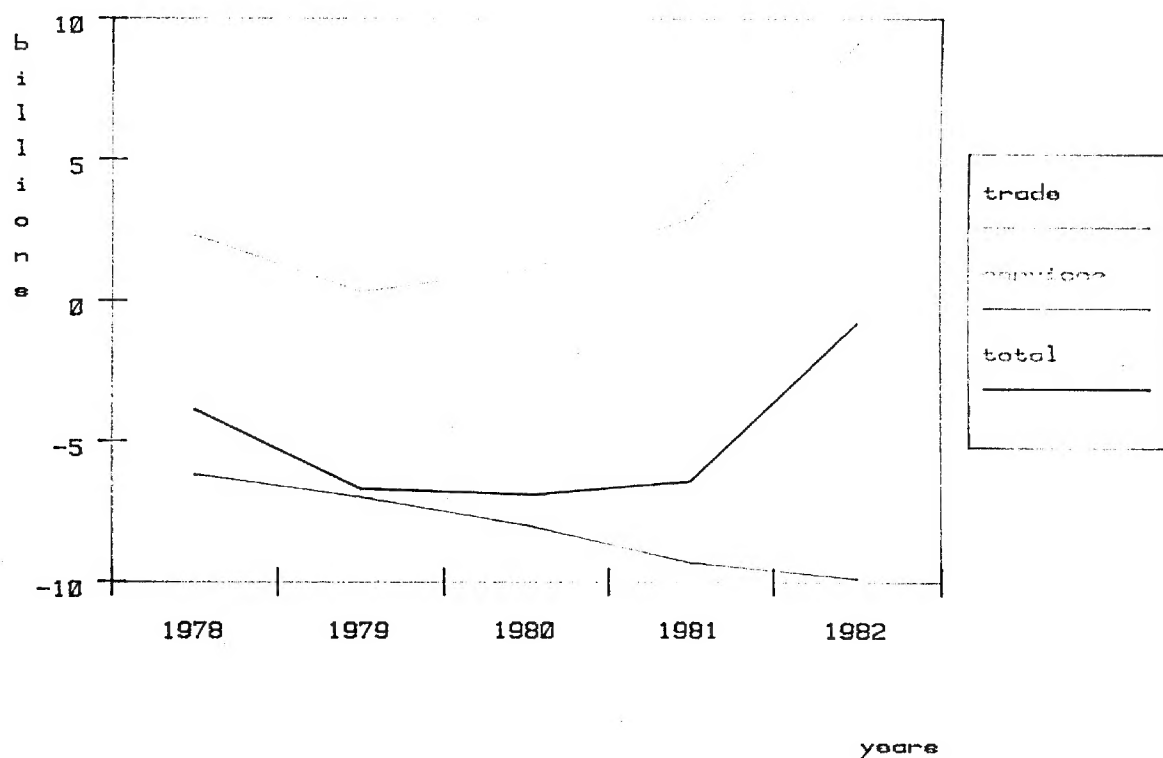


Unemployment Rates

United States and Canada



Canadian Trade Balances with the United States



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